



How the SBA Loan Guarantee Works

The SBA helps small businesses obtain needed credit by giving the government’s guaranty to loans made by commercial lenders. The lender makes the loan, and SBA promises to repay up to 85% of any loss in case of default. Most commercial banks in Western Washington and some non-bank commercial lenders participate in this program.

Attend a FREE SBA Loan Briefing

Where: SBA Business Information Center
1200 Sixth Avenue, Suite 1700
Sixth and University
Downtown Seattle

When: Noon to 1 pm
2nd and 4th Thursday every month

Join us for an informative session that will introduce you to a variety of loan options available under the SBA Loan Guaranty Program.

- ✓ How does the SBA Loan Program work?
- ✓ What are the eligibility and credit requirements for a loan?
- ✓ Can loan proceeds be used to consolidation debt, help with cash flow or buy a building?
- ✓ What are lenders looking for?
- ✓ What resources are available to help me with a business plan or loan proposal?
- ✓ How much capital will I have to invest in the business?

Your specific questions will be answered.

Call 206-553-7310 to confirm date

Please arrive 15 minutes early to check in.

Does the SBA provide grants to small businesses?

The SBA does **not** offer direct grants of money for starting or expanding the operations of a small business. SBA’s grant programs generally support non-profit organizations, intermediary lending institutions, and state and local governments in an effort to expand and enhance small business technical and financial assistance.

The 7(a) guaranteed loan program is SBA's primary lending program. The borrower applies to a lending institution, not the SBA. The lender applies to the SBA for a loan guaranty. The SBA can process the lender's request through a variety of methods. Guarantees are up to \$1 million of each loan made by participant lenders. These loans typically range from \$50,000 to \$2 million and are repaid in monthly installments. They can be used for a variety of business purposes (e.g., working capital, equipment acquisition, and real estate purchases). Maturities depend on the use of loan proceeds but typically range from 5 to 25 years.

Streamlined 7(a) Applications and Approvals

Preferred Lender program - SBA has delegated certain lenders the authority to approve SBA loans unilaterally. Preferred lenders operate under the same 7(a) guaranteed loan guidelines as detailed above. SBA generally provides a loan guaranty to the lender within 24 hours of their request. A list of lenders is posted at www.sba.gov/wa/seattle/seplpcpl.html.

SBA Express Loan Program - SBAExpress loans are backed by an SBA guarantee of 50 percent, the bank uses their own application and documentation forms and the lender has unilateral credit approval authority as in the PLP Program. This method makes it easier and faster for lenders to provide small business loans of \$250,000 or less, with SBA generally providing a loan guaranty to the lender within 24 hours of their request.

SBA LowDoc is a quick and way program that provides a guaranty on small business loans of \$150,000 or less. Once you have met your lender's requirements for credit, the lender will request a SBA LowDoc guaranty for 85 percent of the loan amount. You complete the front of a one-page SBA application and the lender completes the back. SBA processes completed applications within 36 hours.

Additional SBA Financing Programs

SBA Microloan Program was developed to increase the availability of small scale financing and technical assistance to prospective small business borrowers. Loans range from \$500 to \$35,000. Loans are made through designated intermediaries. Contact Community Capital Development, 206-324-4330 or Washington CASH, 206-352-1945.

The **504 Certified Development Companies (CDC) Program** provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. A CDC is a nonprofit corporation set up to contribute to the economic development of its community or region. CDCs work with the SBA and private-sector lenders to provide financing to small businesses. For more information, call Evergreen Community Development Association at 206-622-3731 or NW Business Development Association at 509-458-8555. www.sba.gov/wa/seattle/secdc.html.

Export Working Capital loans are used to finance export sales - 90% SBA guaranty up to \$1 million. Call the U.S. Export Assistance Center, 206-553-70051 for more details. www.sba.gov/wa/seattle/seuseac.html.

For more information on all the SBA Loan Programs visit www.sba.gov/financing.

General Credit Requirements - SBA and private lenders use similar criteria to test credit worthiness.

- (1) **Repayment Ability:** You must show that you can meet business expenses, owners draw, and loan payments from the earnings of the business. This is usually demonstrated through historical performance and/or thoroughly documented cash flow projection.
- (2) **Management:** You must show ability to operate the business successfully. For a start-up, you should have experience in the type of business you propose to start, as well as some significant work experience at a management level.
- (3) **Equity:** The owners must have enough of their own capital at stake in the business:
 - (a) *For a New Business* (or when buying a business you should have approximately one dollar of cash or business assets for each three dollars of the loan.
 - (b) *For an Established Firm*, the after-the-loan business balance sheet should show no more than four dollars of total debt for each dollar of net worth (i.e., a 4:1 Debt/Equity ratio, although this may vary by industry).

Definition of Equity: Pledging of nonbusiness assets (often a second mortgage on your personal residence may be required for collateral. However, this should not be confused with equity in the sense it is used here. As used here, the equity is the owner's net investment in the business).

(4) **Credit History:** Your personal and company credit histories will be reviewed. Any prudent lender prefers applicants who have a history of meeting their obligations. If you credit record has blemishes but their extenuating circumstances, you will want to explain fully.

Guarantee Portion - Under the 7(a) guaranteed loan program SBA may guaranty from 75% to 85% of an eligible bank loan up to a maximum guaranty amount of \$1 million. The exact percentage of the guaranty depends on a variety of factors such as size of loan and which SBA program is to be used. This will be worked out between the SBA and your bank.

Amounts - Maximum loan amount is \$2 million. In addition the total SBA guarantee for any one borrower may not exceed \$1 million. EXCEPTIONS: LowDoc loans may not exceed \$150,000; for Pollution Control or International Trade loans the guaranty portion of the loan may not exceed \$1.3 million.

Maturity - Up to 25 years for real estate acquisition or construction. Most other SBA loans are limited to 10 years. Working capital loans are generally limited to seven years.

Interest Rates - SBA sets a maximum rates on its guaranty loans. The rate may be either fixed or floating, as determined between the bank and applicant. The rate is pegged to the prime rate as published daily in the Wall Street Journal. The formulas are:

- Prime + 2.25% for loans more than \$50,000, maturity less than 7 years.
- Prime + 2.75% for loans more than \$50,000, maturity 7 years or more.
- Lenders have the option of charging an additional 1% on loans under \$50,000 and 2% on loans under \$25,000.

Fees - SBA charges a fee for its guaranty. The fee is levied on that portion of the loan guaranteed by SBA, not the face amount of the loan. It is passed along to the borrower and is usually financed (i.e., built into the loan amount).

If loan maturity exceeds 12 months the fee is:

- 1% of the guaranteed portion for loans up to \$150,000
- 2.5% of the guaranteed portion for loans above \$150,000 up to \$700,000
- 3.5% of the guaranteed portion for loans above \$700,000

If the loan maturity is 12 months or less, the fee is:

- .25% (1/4 of 1%) of the guaranteed portion

CAPLines may have on-going servicing charges in addition to the guaranty.

Prepayment Penalties - Only on loans with terms of 15 years or longer. Decreasing prepayment penalties apply during the first three years of the loan.

Collateral - SBA's collateral policy is in two parts:

- (1) When a loan guaranty is approved, we expect all available company assets to be offered as collateral. If company assets are insufficient to fully secure the loan, liens on personal assets may be required. Often, this means a lien on the family home.
- (2) On the other hand, if adequate collateral simply is not available, this fact alone will not cause SBA to decline an otherwise qualified loan.

Eligibility - Most small businesses are eligible to receive SBA loan guarantees. However SBA is unable to make loans under the following circumstances:

- (1) If the applicant is not small business.
- (2) If the funds are otherwise available on reasonable terms, e.g., if the bank would make the same loan terms available without an SBA guaranty, or if personal assets could be used without hardship to the owners.
- (3) If the loan is to pay off creditors who are inadequately secured.
- (4) If your business is engaged in speculation, lending, investment, or rental real estate.
- (5) If the applicant is a nonprofit enterprise (except employee stock ownership programs).

Size Standards - Applicants must meet the SBA definition of small business. Size limits may vary by specific industry group (NAICS code). See page 11 for more information.

Preferred and Certified Lenders - Certain commercial lenders have earned preferred or certified status with SBA. This allows lenders to process SBA loans with less paperwork and in less time. You can find a list of preferred and certified lenders at www.sba.gov/wa/seattle/seplpcpl.html.

No-cost, low-cost monthly workshops

SBA Business Enterprise Center
1200 Sixth Avenue, Suite 1700
Corner of Sixth and University downtown Seattle
206-553-7311

FREE SBA Loan Briefing - 2nd and 4th Thursday each month from Noon to 1 pm. Learn more about the SBA Loan Guarantee Program and other sources available in Western Washington to finance your business. Call 206-553-7310 to confirm date.

FREE Selling to the Government, Marketing Strategies and Certification Briefings These briefings are presented by the SBA and the Washington State Office of Minority and Women's Business Enterprises (OMWBE). For more information call 206-553-7356 or e-mail jenaroc@omwbe.wa.gov.

FREE CPA Business Briefing held the 3rd Friday of each month from 11 am to 1 pm. The series will cover a variety of topics information for small business owners and entrepreneurs. For more information and to confirm date call 206-553-7320.

FREE New Business Outreach Workshops - Washington State Tax Seminar Held 1st Tuesday of every other month from 10 am to Noon. These workshop is presented by the Washington State Department of Revenue. Learn about excise tax, how to report your taxes to Washington State and taxes specific to your business. This is a must for the new to business owner or businesses that have relocated from another state. Copies of rules and regulations and workbooks will be available during the workshop. Please Pre-register by calling SBA, 206-553-7310 or the Dept. of Revenue, 206-956-3002 or go online www.dor.wa.gov.

FREE Safety and Health Programs: Adding Value to Your Business Workshops – held quarterly from noon until 1:00 p.m. Workshops presented by the Occupational Safety and Health Administration (OSHA) You will learn about safety and health problems and how they affect your business and your employees. A package of all required Federal and State posters, safety and health publications catalog, self-inspection checklist and recordkeeping requirements will also be available. Call 206-553-7320 to pre-register and confirm dates.

SCORE Workshops are different from most business-oriented workshops that are available today. Aimed directly at small businesses information is presented in a uncomplicated, non-technical manner. These workshops are real-world, not academic. For more information call 206-553-7320 or www.seattlescore.org

Women's Network for Entrepreneurial Training WNET is offered in downtown Seattle, Eastside, Tacoma, Everett and Kitsap County. Breakfast meetings cover a variety of topics targeted for women business owners. For more information call 206-553-7315 or visit www.sba.gov/wa/seattle/seawnet.html

What a lender looks for

New Business

- (1) Describe in detail the type of business to be established.
- (2) Describe your experience and management credentials.
- (3) Prepare a detailed estimate of how much capital will be needed to start. State how much you have and how much you will need to borrow.
- (4) Prepare a current personal financial statement, listing all personal assets and liabilities.
- (5) Prepare a month-by-month projection of revenues, expenses and profit for the first twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (6) List the collateral to be offered as security for the loan, with estimates of the market value of each item.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.

Established Business

- (1) Current business financial information: Prepare a current balance sheet and an income (profit and loss) statement for current year up to the date of the balance sheet.
- (2) Historical business financial information: Prepare income statements and balance sheets for the past three full years. Do not include personal items on the statements. Reconcile the equity balances between each year.
- (3) Prepare a month-by-month projection of revenues, expenses and profits for the next twelve months. Also do a companion cash flow projection for the same period. Explain your major assumptions in an accompanying narrative.
- (4) Prepare a current personal financial statement for each owner, partner, or stockholder owning at least 20% of the business.
- (5) List the collateral to be offered as security for the loan, with estimates of the market value of each item.
- (6) State the amount and intended uses of the loan.
- (7) Take this material to your banker. If the bank wants an SBA guaranty for your loan, they will make application to us. You deal with the bank; the bank deals with SBA.